Coromandel Sugars Limited

April 08, 2021

Ratings

Facilities	Amount (Rs. crore)	Rating[1]	Rating Action
(i) Long Term Bank Facilities	100.00	CARE BBB-; Stable (Triple B Minus; Outlook: Stable)	Reaffirmed
(ii) Long Term / Short Term Bank Facilities	47.00	CARE BBB-; Stable / CARE A3 (Triple B Minus ; Outlook: Stable/ A Three)	Reaffirmed
(iii) Long Term Bank Facilities @	162.20 (Reduced from 163.60)	CARE A- (CE); Positive [Single A Minus (Credit Enhancement); Outlook: Positive]	Reaffirmed; Outlook revised from Stable
Total Bank Facilities	**309.20 (Rs. Three Hundred Nine Crore and Twenty Lakhs Only)**		

Details of instruments/facilities in Annexure-1

@ backed by credit enhancement in the form of unconditional and irrevocable Corporate Guarantee from The India Cements Limited

Detailed Rationale & Key Rating Drivers of Coromandel Sugars Limited

The ratings assigned to the bank facilities [(i) & (ii)] of Coromandel Sugars Limited (CSL) continue to derive strength from the demonstrated support from its group companies, moderately diversified revenue stream on account of partially integrated nature of its operations and relatively longer crushing period.

The ratings are, however, constrained by high gearing levels, relatively low cash accruals and susceptibility of revenue and profitability to cyclical and regulated nature of sugar industry

<u>Rating Sensitivities of Coromandel Sugars Limited</u>

Positive Factors - Factors that could lead to positive rating action/upgrade:

- Ability of the company to improve its capital structure marked by improvement in overall gearing and debt coverage indicators on a sustained basis.

Negative Factors- Factors that could lead to negative rating action/downgrade:

- Significant deterioration in operating margin on a sustained basis.
- Sharp deterioration in the credit profile of the promoter group company The India Cements Ltd.

Detailed Rationale & Key Rating Drivers of credit enhancement provider - The India Cements Limited

The ratings continue to factor in the market position of ICL in the southern markets as one of the largest players with established presence, its strong brand image in all the five southern states, integrated nature of operations with presence of captive power plants and revenue contribution from non-southern states resulting in geographical diversification. The rating also takes note of good improvement in profitability and accruals during 9mFY21 (refers to the period from April 01 to December 31) supported by higher sales realization.

The ratings are, however, tempered by the susceptibility of the revenues and profitability to the demand-supply dynamics of the cement market, ICL's moderate leverage levels, relatively lower profit margins, exposure to group entities and cyclical nature of cement industry.

<u>Rating Sensitivities of The India Cements Limited</u>

Positive Factors - Factors that could lead to positive rating action/upgrade:

- Improvement in profitability and reduction in total debt resulting in total debt/GCA of less than 6.0x on a sustained basis.

Negative Factors- Factors that could lead to negative rating action/downgrade:

- Deterioration in the capital structure with overall gearing above 0.80x and total debt to GCA of above 15x on a sustained basis.

<u>Outlook: Positive (for ICL)</u>

[1]*Complete definition of the ratings assigned are available at www.careratings.com and other CARE publications*

The revision in outlook from stable to positive factors in the expected improvement in the financial performance of ICL with strong volume growth expected in FY22 and likely sustenance of the selling price at the existing level. During 9mFY21, financial performance of ICL improved primarily on account of high growth in sales realization of cement on y-o-y basis. Though cement prices witnessed moderation in the beginning of Q4FY21, it has increased significantly in the month of March 2021. Domestic cement production in India witnessed drop of 16.6% on y-o-y basis in 10mFY21 on account of COVID-19 pandemic induced slow down. However, cement production is expected to witness double digit growth in FY22. Higher sales growth volume coupled with sustenance of sales realisation at present level is likely to result in improved profitability & accruals and thereby improvement in debt coverage indicators of ICL, going forward. The outlook may be revised to stable if the sales volume and sales realisation of cement declines on a sustained basis leading to moderation in profitability.

Detailed description of the key rating drivers of Coromandel Sugars Limited

Key Rating Strengths

Demonstrated support from the group

CSL is part of the India Cements group, and India Cements Limited (ICL, rated '*CARE A-; Positive/ CARE A2+*') owns 49.9% stake in CSL through its wholly-owned subsidiary, Coromandel Electric Company Limited (CECL). ICL has extended corporate guarantee to term loan facilities of CSL aggregating Rs.165 crore. ICL has also extended financial support to CSL in the form of unsecured loans in the past whenever required. As on December 31, 2020, total support extended by ICL stood at Rs.105.3 crore, of which Rs.35.5 crore is in the form of investments through 0% unsecured convertible debentures and Rs.69.8 crore in the form of unsecured loans (including interest accrual of Rs.11.3 crore). It is to be noted that no loans have been received from ICL since FY18. The tenure of 0% unsecured convertible debentures extended for another 5-year period on March 31, 2017.

This apart, CSL has also received support from another promoter group entity CECL. As on December 31, 2020, total unsecured loans from CECL stood at Rs.76.6 crore (including interest accrual of Rs.21.6 crore). CSL had not received any support from CECL since FY19.

CARE expects the need-based support to CSL from the India Cements group to continue in the future as well.

Relatively longer crushing period

The command area of CSL has two major rivers, Cauvery and Hemavathy, and it is fed by canals & tube-wells. Generally, on account of better cane availability, the crushing period of CSL is longer. Cane crushing for FY20, commenced in July 2019 and continued up to March 2020, for about 246 days. During FY20, CSL witnessed higher cane crushing at 8.43 lakh MT of sugarcane as against 7.22 lakh MT in FY19, driven by increased sugarcane harvesting in South Karnataka on account of better climatic conditions during the period. However, due to delayed onset of rainfall during the season, recovery rate decreased y-o-y to 9.38% in FY20 from 9.76% in FY19.

For current year (FY21), the company started crushing cane from August 2020 and has crushed around 6.6 lakh MT as of end of February 2021. Due to unseasonal rainfall during January'21-February'21 months, cane yield had decreased leading to decrease in cane crushing volumes during current year.

Partially diversified revenue stream

CSL has a partially diversified revenue stream, aided by additional income earned from the sale of molasses and generation of power from the co-gen plant. During FY20, CSL generated around 83% of the total income from sale of sugar (PY: 80%), 11% from sale of molasses (PY: 11%), 6% from sale of power (PY: 9%) and remaining from other income (interest and dividend income). Current level of diversification provides partial de-risking of the core sugar business from the inherent cyclicality and volatile sugar prices.

Key Rating Weaknesses

Improved revenues in FY20; however margins moderate on account of lower power realizations

During FY20, CSL's total income increased sharply by 60% y-o-y to Rs.298 crore from Rs.186 crore in FY19, due to sharp increase in sugar sales volume and realizations. Total sugar production during FY20 increased 17% y-o-y. Aided by better crushing in FY19 and FY20, the company received higher release quota for sugar resulting in 66% increase sugar sales volumes. Further, average sale realization increased by 6.5% y-o-y during FY20. Average cane cost marginally increased by 1% y-o-y in FY20.

For FY20, total sugar sales increased to Rs.230 crore from Rs.142 crore in FY19. For FY20, molasses sales stood at Rs.30 crore (PY: Rs.21 crore) and power sales at Rs.16 crore (PY: Rs.16 crore). For FY20, PBILDT margin moderated 16.21% (PY: 23.20%) on account of lower power tariffs which impacted overall profitability. Profit after tax continued to impacted due to higher finance costs of Rs.42 crore (PY: Rs.41 crore). For FY20, CSL reported net loss of Rs.3.0 crore against net profit of Rs.1.6 crore in FY19, and GCA of Rs.12.1 crore (PY: Rs.15.0 crore).

Covid-19 impact:

- Sugar being a part of essential goods and services, the company's operations had been least impacted due to the Covid-19 lockdown.
- The company had availed moratorium on its debt obligations for the period March 01 to August 31, 2020 as per the Covid-19 relief package announced by the RBI.
- Further, the company has availed Covid Emergency credit of Rs.3.8 crore and received sanction of Rs.58 crore under ECLGS (emergency credit line guarantee scheme) for managing liquidity.

High leverage levels

Overall gearing stood at 4.88x as on March 31, 2020 as against 4.19x as on March 31, 2019. As on March 31, 2020, total debt stood at Rs.481 crore – Rs.171 crore of term loans (including soft loans), Rs.174 crore of unsecured loans from group (including 0% convertible debentures amounting Rs.35.5 crore from ICL) and Rs.136 crore of working capital borrowings. For FY20, interest coverage indicator remained moderate at 1.15 times. Excluding loans availed from promoter group entities, overall gearing stood at 3.12x as on March 31, 2020 (PY: 2.73x).

Susceptibility of the revenues and profitability to the demand-supply dynamics with cyclical and regulated nature of sugar industry

Sugar industry is a highly regulated industry. Cyclical nature of sugar industry and volatility in prices results in significant impact on operating performance of sugar companies. These apart, operations are susceptible to cane availability which is a challenge due to adverse climatic conditions.

Industry Outlook

For SS 2020-21, India's sugar output is expected to increase by 17.7% y-o-y to 32 million tonnes as per the preliminary estimates released by ISMA. This is likely to aggravate the already surplus sugar supply situation in India. The estimate does not include diversion of cane juice and B-molasses towards ethanol which is expected to result in 1.5 million tonnes of less sugar production in sugar year 2020-21. The average domestic sugar prices remained almost stable and were in the range of Rs.33 per kg – Rs.34 per kg during the period October 2019-March 2020 backed by lower sugar output and higher exports for the SS 2019-20. In addition to this, monthly sales quota and encouragement to increase diversion of sugarcane towards ethanol to reduce sugar inventory have also aided the stability in prices. During lockdown, sugar prices had declined by 0.3% in April 2020 and by another 0.9% in May 2020 on sequential basis as per WPI. Subdued demand from bulk consumers like restaurants, eateries, food services, etc., due to imposition of lockdown on account of Covid-19 is believed to have impacted sugar prices during these two months. In July 2020 sugar prices improved by 4.7% m-o-m to Rs.33.9 per kg. The prices had also increased 1.6% sequentially in June 2020 as per Wholesale Price Index (WPI). Some recovery in demand from bulk consumers such as restaurants which were allowed to operate (though with various restrictions) is believed to have resulted in the improvement in prices. The Cabinet Committee on Economic Affairs (CCEA) announced FRP for sugarcane at Rs.285 per quintal for the sugar season (SS) 2020-21 for a basic recovery rate of 10%. This is 3.6% higher than the FRP of Rs.275 per quintal during 2019-20 when it was kept unchanged. The higher cost of sugar production is likely to affect the sugar mills given the current scenario of sugar industry where surplus sugar supply is already restricting any major growth in sugar prices.

Prospects

During FY20, CSL's financial performance remained relatively stable on account of higher cane crushing volumes and sugar sales volume. Operating profitability moderated against previous year driven by lower power sales realizations. However, owing to lower yield in catchment area and increase in competition for unregistered cane is likely to impact the cane crushing volumes during FY21. Going forward, ability of the company to improve crushing, improve its capital structure, continued support from the promoter group and credit profile of the group would be key rating monitorables.

Detailed description of the key rating drivers of ICL

The detailed description of the key rating drivers of ICL can be found at ***www.careratings.com***

Liquidity of Coromandel Sugars Ltd: Adequate

Liquidity is marked by adequate accruals to repayment obligations, moderate utilized bank limits and modest cash balance. The scheduled term loan repayment (adjusted for moratorium) for FY21 is Rs.9.8 crore. Total cash & bank balance stood at Rs.0.93 crore as on December 31, 2020. The company's average working capital utilization was 79.95% for the 12-month period ended December 2020.

Liquidity of The India Cements Ltd: Adequate

The cash and bank balance outstanding as on March 31, 2020, stood at Rs.7 crore. The company has sanctioned working capital limit of Rs.750 crore and the average month end working capital utilisation for the past twelve months ended December 2020 was 69%. Scheduled debt obligations for FY21 is Rs.440 crore against GCA of Rs.305 crore achieved in 9mFY21. During 9mFY21, ICL has availed moratorium on account of COVID-19. In respect of some lenders moratorium was availed for March 2020 to May 2020 and in respect of some lenders moratorium was given for the period from March 2020 to August 2020. On account of same, scheduled term debt obligation declined significantly in FY21. Scheduled term loan repayment obligation for FY21 is Rs.626 crore.

Analytical approach:
Standalone and factoring in support from promoter group companies.
Guarantor's assessment (for CE rating).

Applicable Criteria
Criteria on assigning 'outlook' and 'credit watch' to Credit Ratings
CARE's Policy on Default Recognition
Liquidity Analysis of Non-Financial Sector Entities
Financial ratios (Non-Financial Sector)
Criteria for Rating Credit Enhanced Debt
Rating Methodology: Factoring linkages in Ratings (Parent-Subsidiary linkages, Group linkages and Joint ventures)
Criteria for Short Term Instruments
Rating Methodology - Sugar Sector

About the Company – Coromandel Sugars Ltd
Coromandel Sugars Limited (CSL), promoted by the India Cements group is engaged in the manufacture of sugar, molasses and also co-generation of power. Originally incorporated in 1996 under the name of ICL Sugars Limited, its name was changed to CSL in 2007. CSL is an associate company of The India Cements Limited with 49.99% ownership interest through its subsidiary Coromandel Electric Company Limited and rest of the stake is held by other group companies.
The company commenced operations in August 1999 with an installed capacity of 2,500 tonnes crushed per day (TCD). Its production facility, situated at Makkavalli, Mandya District, Karnataka has an installed capacity of 3,500 tonnes crushed per day (TCD) and a multi-fuel cogeneration power capacity of 30 MW as on March 31, 2020.

Brief Financials (Rs. crore)	FY19 (A)	FY20 (A)
Total operating income	186	298
PBILDT	43	48
PAT	2	(3)
Overall gearing (times)	4.19	4.88
Interest coverage (times)	1.04	1.15

A: Audited;

About the credit enhancement provider – The India Cements Ltd
ICL is the one of the largest producers of cement in South India and is one of the largest cement manufacturers in the country with a total installed cement manufacturing capacity of 15.55 mtpa as on December 31, 2020. ICL was established in 1946 by Mr Sankaralinga Iyer and Mr T S Narayanswami and is today headed by Mr N.Srinivasan, Vice Chairman and Managing Director. ICL owns and operates ten cement manufacturing units (including two split grinding units) in the states of Telangana, Andhra Pradesh (AP), Tamil Nadu (TN), Maharashtra (MH) and Rajasthan. The company primarily manufactures two standard types of cement: Ordinary Portland Cement (OPC) and Portland Pozzolana Cement (PPC), the mix being 35:65.

Brief Financials (Rs. crore)	FY19 (A)	FY20 (A)
Total operating income	5,637	5,067
PBILDT	651	598
PAT	69	(36)
Overall gearing (times)	0.70	0.74
Interest coverage (times)	2.01	1.79

A: Audited;
Status of non-cooperation with previous CRA: Not applicable
Any other information: Not applicable
Rating History for last three years: Please refer Annexure-2

Annexure-1: Details of Instruments/Facilities

Name of the Instrument	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. crore)	Rating assigned along with Rating Outlook
Fund-based - LT-Cash Credit	-	-	-	80.00	CARE BBB-; Stable
Fund-based - LT-Cash Credit	-	-	-	20.00	CARE BBB-; Stable
Fund-based - LT/ ST-Working Capital Limits	-	-	-	47.00	CARE BBB-; Stable / CARE A3
Term Loan-Long Term	-	-	Apr 2029	162.20	CARE A- (CE); Positive

Annexure-2: Rating History of last three years

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating history			
		Type	Amount Outstanding (Rs. crore)	Rating	Date(s) & Rating(s) assigned in 2020-2021	Date(s) & Rating(s) assigned in 2019-2020	Date(s) & Rating(s) assigned in 2018-2019	Date(s) & Rating(s) assigned in 2017-2018
1.	Fund-based - LT-Cash Credit	LT	80.00	CARE BBB-; Stable	-	1)CARE BBB-; Stable (20-Feb-20)	1)CARE BBB-; Stable (04-Mar-19) 2)CARE BBB-; Stable (05-Apr-18)	1)CARE BBB-; Stable (14-Apr-17)
2.	Fund-based - LT-Term Loan	LT	-	-	-	-	1)Withdrawn (05-Apr-18)	1)CARE A- (SO); Stable (14-Apr-17)
3.	Fund-based - LT-Cash Credit	LT	20.00	CARE BBB-; Stable	-	1)CARE BBB-; Stable (20-Feb-20)	1)CARE BBB-; Stable (04-Mar-19) 2)CARE BBB-; Stable (05-Apr-18)	1)CARE BBB-; Stable (14-Apr-17)
4.	Fund-based - LT/ ST-Working Capital Limits	LT/ST	47.00	CARE BBB-; Stable / CARE A3	-	1)CARE BBB-; Stable / CARE A3 (20-Feb-20)	1)CARE BBB-; Stable / CARE A3 (04-Mar-19) 2)CARE BBB-; Stable / CARE A3 (05-Apr-18)	-
5.	Term Loan-Long Term	LT	162.20	CARE A- (CE); Positive	1)CARE A- (CE); Stable (07-Apr-20)	-	1)CARE A (SO); Stable (02-Jan-19)	-

Annexure-3: Complexity level of various instruments rated for this company

Sr. No.	Name of the Instrument	Complexity Level
1.	Fund-based - LT-Cash Credit	Simple

Sr. No.	Name of the Instrument	Complexity Level
2.	Fund-based - LT/ ST-Working Capital Limits	Simple
3.	Term Loan-Long Term	Simple

Annexure-4: Detailed explanation of covenants of the rated instrument / facilities - NA

Note on complexity levels of the rated instrument: *CARE has classified instruments rated by it on the basis of complexity. This classification is available at www.careratings.com. Investors/market intermediaries/regulators or others are welcome to write to care@careratings.com for any clarifications.*

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About CARE Ratings:

CARE Ratings commenced operations in April 1993 and over two decades, it has established itself as one of the leading credit rating agencies in India. CARE is registered with the Securities and Exchange Board of India (SEBI) and also recognized as an External Credit Assessment Institution (ECAI) by the Reserve Bank of India (RBI). CARE Ratings is proud of its rightful place in the Indian capital market built around investor confidence. CARE Ratings provides the entire spectrum of credit rating that helps the corporates to raise capital for their various requirements and assists the investors to form an informed investment decision based on the credit risk and their own risk-return expectations. Our rating and grading service offerings leverage our domain and analytical expertise backed by the methodologies congruent with the international best practices.

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